Journal of THE JAPANESE AND INTERNATIONAL ECONOMIES

An International Journal
Published in Cooperation with the Tokyo Center for Economic Research

Editor-in-Chief

Masahiko Aoki, University of Kyoto and Stanford University

Editorial Board

Michihiro Ohyama, Keio University
Koichi Hamada, Yale University
Masahiro Okuno-Fujiwara, University of Tokyo
Takatoshi Ito, Hitotsubashi University

VOLUME 4, 1990

ACADEMIC PRESS, INC.
Harcourt Brace Jovanovich, Publishers
San Diego New York Boston
London Sydney Tokyo Toronto

Journal of
THE JAPANESE AND INTERNATIONAL ECONOMIES

Volume 4, Number 3, September 1990

Copyright © 1990 by Academic Press, Inc.
All Rights Reserved

No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopy, recording, or any information storage and retrieval system, without permission in writing from the copyright owner.

The appearance of the code at the bottom of the first page of an article in this journal indicates the copyright owner's consent that copies of the article may be made for personal or internal use, or for the personal or internal use of specific clients. This consent is given on the condition, however, that the copier pay the stated per copy fee through the Copyright Clearance Center, Inc. (27 Congress Street, Salem, Massachusetts 01970), for copying beyond that permitted by Sections 107 or 108 of the U.S. Copyright Law. This consent does not extend to other kinds of copying, such as copying for general distribution, for advertising or promotional purposes, for creating new collective works, or for resale. Copy fees for pre-1990 articles are as shown on the article title pages; if no fee code appears on the title page, the copy fee is the same as for current articles.

0889-1583/90 $3.00

MADE IN THE UNITED STATES OF AMERICA

This journal is printed on acid-free paper.

CONTENTS OF VOLUME 4

NUMBER 1, MARCH 1990

TETSUJI YAMADA. The Labor Force Participation of Elderly Males in Japan 1

CHIKARA KOMURA. Policy Options toward a Trade Balance: A Japanese Case Study Using the VAR Model, 1974–1987 24

REUVEN GLICK AND MICHAEL HUTCHISON. Financial Liberalization in the Pacific Basin: Implications for Real Interest Rate Linkages 36

COMMUNICATION

CHARLES YUJI HORIOKA. Why Is Japan's Household Saving Rate So High? A Literature Survey 49

BOOK REVIEWS

YOSHIRO MIWA. *Law and Trade Issues of the Japanese Economy: American and Japanese Perspectives*. Edited by Gary R. Saxonhouse and Kozo Yamamura 93

AKIO KURODA. *The Transition of Finance in Japan and the United States: A Comparative Perspective*. By Thomas F. Cargill and Shoichi Royama 96

NUMBER 2, JUNE 1990

HIROYUKI CHUMA, KEIJIRO OTSUKA, AND YUJIRO HAYAMI. On the Dominance of Land Tenancy over Permanent Labor Contract in Agrarian Economies 101

GIORGIO BRUNELLO. Real Exchange Rate Variability and Japanese Industrial Employment 121

SATORU KANOH. Statistical Reconsideration of the EPA Diffusion Index 139

JOSEF FALKINGER. Innovator–Imitator Trade and the Welfare Effects of Growth 157

KAZUO OGAWA. Cyclical Variations in Liquidity-Constrained Consumers: Evidence from Macro Data in Japan 173

REVIEW

RAY REES. The Share Economy and Alternative Systems of Workers' Remuneration: A Review of Weitzman and Meade 194

BOOK REVIEW

JEAN-JACQUES LAFFONT. *Information, Incentives and Bargaining in the Japanese Economy*. By Masahiko Aoki 215

NUMBER 3, SEPTEMBER 1990

MELVYN FUSS AND LEONARD WAVERMAN. The Extent and Sources of Cost and Efficiency Differences between U.S. and Japanese Motor Vehicle Producers 219

GIORGIO BRUNELLO. Competing Models of Union Behavior: Evidence from Japanese Panel Data 257

F. R. CASAS. The Pattern of Trade and the Gains from Trade in the Presence of Domestic Monopsony 279

MICHIHIRO OHYAMA. Economic Growth and the Balance of Payments 292

COMMUNICATION

ROBERT DEKLE. Do the Japanese Elderly Reduce Their Total Wealth? A New Look with Different Data 309

NUMBER 4, DECEMBER 1990

Special Conference Issue
Corporate Finance and Related Issues: Comparative Perspectives

EDITOR'S INTRODUCTION 319

ALBERT ANDO AND ALAN J. AUERBACH. The Cost of Capital in Japan: Recent Evidence and Further Results 323

KAZUO UEDA. Are Japanese Stock Prices Too High? 351

TAKEO HOSHI AND ANIL K. KASHYAP. Evidence on q and Investment for Japanese Firms 371

FUMIO HAYASHI AND RAVI JAGANNATHAN. Ex-day Behavior of Japanese Stock Prices: New Insights from New Methodology 401

T. J. JENKINSON. Initial Public Offerings in the United Kingdom, the United States, and Japan 428

COLIN MAYER AND IAN ALEXANDER. Banks and Securities Markets: Corporate Financing in Germany and the United Kingdom 450

KENNETH R. FRENCH AND JAMES M. POTERBA. Japanese and U.S. Cross-Border Common Stock Investments..... 476

AUTHOR INDEX FOR VOLUME 4 494

Journal of the Japanese and International Economies

INFORMATION FOR AUTHORS

Journal of the Japanese and International Economies publishes original reports of research devoted to academic analyses of the Japanese economy and the interdependence between the Japanese economy and other national economies. The journal also features articles that present related theoretical, empirical, or comparative analyses and their policy implications. A section for book reviews is also included.

Research areas include, but are not limited to: studies of the Japanese perspective in contemporary economic issues; theoretical, empirical, and comparative analysis of Japanese markets and institutions; analyses of the interdependence between the Japanese and Western economies; reviews of other international issues related to the Japanese economy and the economies of the Pacific basin; and general analyses of economic theory and policy.

Original papers only will be considered. Manuscripts are accepted for review with the understanding that the same work has not been published, that it is not under consideration for publication elsewhere, and that its submission for publication has been approved by all of the authors and by the institution where the work was carried out; further, that any person cited as a source of personal communications has approved such citation. Written authorization may be required at the Editor's discretion. Articles and any other material published in the *Journal of the Japanese and International Economies* represent the opinions of the author(s) and should not be construed to reflect the opinions of the Editorial Board, the Tokyo Center for Economic Research, or the Publisher.

Authors submitting a manuscript do so with the understanding that if it is accepted for publication, copyright in the article, including the right to reproduce the article in all forms and media, shall be assigned exclusively to the Publisher. The Publisher will not refuse any reasonable request by the author for permission to reproduce any of his or her contributions to the journal.

Manuscripts should be prepared according to the following style rules. Deviation from these rules causes publication delays.

Submission of manuscripts. Submit manuscripts in quadruplicate, in English, *with one additional copy of the Abstract*. Each copy *must* include all figures and tables. Number the pages consecutively. Manuscripts may be submitted as follows:

Manuscripts originating in Japan:

Journal of the Japanese and International Economies
c/o Academic Press Japan, Inc.
Ichibancho Central Bldg.
22-1, Ichibancho, Chiyoda-ku
Tokyo 102, Japan

Manuscripts originating outside Japan:

Journal of the Japanese and International Economies
Editorial Office
Sixth Floor
1250 Sixth Avenue
San Diego, California 92101

Form of manuscript. Manuscripts should be typewritten and double-spaced throughout (including tables, footnotes, references, and figure legends); the original typescript should be prepared on one side of a good grade of 8.5 × 11-in. white paper, with 1-in. margins on all sides. Mimeographed or duplicated manuscripts will be accepted *if they are indistinguishable from good typed copies*. *Page 1* should contain the article title, author and coauthor names, and complete affiliation(s) (name of institution, city, state, and zip code). At the bottom of page 1 place any footnotes to the title (indicated by superscript *, †, ‡). *Page 2* should contain a proposed running head (abbreviated form of the title) of less than 35

characters. It should also contain the name and mailing address of the author to whom proofs should be sent. *Page 3* should contain an abstract of no more than 100 words. The Abstract will appear at the beginning of the article in the journal. This page should also contain *Journal of Economic Literature* classification numbers. In the preparation of the abstract and classification numbers, authors should use the abstract format that is required by the *Journal of Economic Literature*.

List of symbols. Attach to the manuscript a complete typewritten list of symbols, identified typographically, not mathematically. This list will not appear in print but is essential in order to avoid costly author's corrections in proof. *If equations are handwritten in the text then the list of symbols should also be handwritten.* Distinguish between "oh," "zero"; "el," "one"; "kappa," "kay"; upper- and lowercase "kay"; etc. Indicate also when special type is required (German, Greek, vector, scalar, script, etc.); all other letters will be set in *italic*.

Tables. Number tables consecutively with Roman numerals. Extensive tables may be reproduced photographically and so should be typed carefully and in the *exact* format desired. Authors will be charged for any new photoreproductions necessitated by changes in proof. Use superscript lowercase italic letters (*a, b, c*) for table footnotes, which should be typed immediately below the table. Type tables at least double-spaced, including titles and footnotes. Do *not* underline table titles; reserve underlining for text that is to be italicized.

Equations should be typewritten and the equation number should be placed in parentheses at the right margin. Reference to equations should use the form "Eq. (3)" or simply (3) except at the beginning of a sentence, when the word Equation should be spelled out. Punctuate equations to conform to their place in the syntax of the sentence. Superscripts and subscripts should be typed or handwritten clearly above and below the line, respectively. Use the exponent 1/2 wherever possible.

Style. In general, authors should be guided by *A Manual for Authors* published in 1962 (and revised in 1980) by the American Mathematical Society, P.O. Box 6248, Providence, RI 02904.

References. All references should be cited in the text by the author's surname and date of publication, e.g., Smith and Jones (1987) or (Smith, 1987) and typed double-spaced. All references should be listed at the end of the article in alphabetical order by authors' surnames. For unpublished lectures or symposia, include title of the paper, name of the sponsoring society in full, and date. For journal names, follow the *Journal of Economic Literature* abbreviations. The following styles should be used in the reference list.

DEKEL, E. (1984). Asset demands without the independence axiom, mimeograph, Harvard University.

FUDENBERG, D., LEVINE, D., AND TIROLE, J. (1985). Infinite horizon models of bargaining with one-sided incomplete information, *in* "Bargaining with Incomplete Information" (A. Roth, Ed.), pp. 73–98, Cambridge Univ. Press, London/New York.

GUL, F. (1986). "Two Essays on the Bargaining Foundations of Value Theory," Ph.D. dissertation, Princeton University.

HORIUCHI, A. (1977). "Madoguchi shido" no yukosei [Effectiveness of "window guidance"], *Keizai Kenkyu* **28,** 204–213.

KAHN, C. (1986). The durable goods monopolist and consistency with increasing costs, *Econometrica* **54,** 275–294.

REED, M., AND SIMON, B. (1980). "Methods of Modern Mathematical Physics," Vol. I, "Functional Analysis," Academic Press, New York.

Footnotes in text should be avoided if at all possible. If they must be used, identify by superscript numbers and type together on a separate page, double-spaced.

Figures. All illustrations are to be considered as figures. Number each graph or drawing in sequence with Arabic numerals. Supply a descriptive legend for each figure. Type legends double- or triple-spaced consecutively on a separate sheet. **Figures must be submitted in a form suitable for reproduction. Photocopies are not acceptable.** Plan figures to fit the proportion of the printed page. Use a professional lettering set on the original so that the letters and numbers are large enough and "open" enough to take a reduction of 50–60% without filling in with ink. Do not include background grids; however, on paper with blue lines the grid can be eliminated in the process of photoreproduction. Identify each figure in a margin in pencil with the name of the journal, author's name, and figure number; avoid marking the backs of figures.

Proofs. Proofs will be sent to the corresponding author, with a reprint order form. Authors will be charged for alterations in excess of 10% of the cost of composition.

Reprints. Fifty reprints per article (without covers) will be provided free of charge. Additional reprints may be purchased; an order form will be included with proofs.

INTERNATIONAL ECONOMIC REVIEW

A Selection of Articles Forthcoming in Volume 32 (1991):

David Besanko and David Silbey
Compensation and Transfer Pricing in a Principal-Agent Model

James A. Dearden
Efficiency and Disagreement in Repeated Infinite Horizon Bargaining Games

Jerome Detemple and Larry Selden
A General Equilibrium Analysis of Option and Stock Market Interactions

Robert J. Gary-Bobo and Philippe Michel
Informative Advertising and Competition: A Noncooperative Approach

Karen Lewis
Was There a "Peso Problem" in the U.S. Term Structure of Interest Rates: 1979-1982?

Theo Nijman and Franz Palm
Generalized Least Squares Estimation of Linear Models Containing Rational Future Expectations

Peter F. Orazem and J. Peter Mattila
Human Capital, Uncertain Wage Distributions and Occupational and Educational Choices

Asha Sadanand and Jack Williamson
Equilibrium in a Stock Market Economy with Shareholder Voting

David C. Webb
Long-Term Financial Contracts Can Mitigate the Adverse Selection Problem in Project Financing

Philippe Weil
Is Money Net Wealth?

General Information:

Subscriptions: *Review* subscriptions are for a full volume and cost $125 for institutions, $40 for individuals and $15 for students.

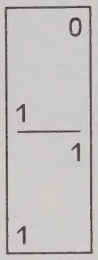
Submissions: Send 4 copies of the manuscript (which is not under consideration at other journals) to the editor. It should conform to the style guide which is available upon request. A submission fee should accompany all new manuscripts: $75 for nonsubscribers and $50 for subscribers.

Back orders: The following volumes are available for back order: 1 through 30 (1960-1989) at $80 per volume, and 31 (1990) at $125 per volume.

Payment to the *Review* may be by check or credit card (Mastercard/Visa). All checks must be in US dollars, drawn on a US bank and made payable to the *University of Pennsylvania*. Credit card orders are accepted by phone (215)898- 5841, M - F, 9 - 5, or in writing. Please include type of credit card, account number, expiration date, name of card holder and signature.

For other information please write to the *Review's* office at
International Economic Review
University of Pennsylvania
3718 Locust Walk
Philadelphia, PA 19104-6297 USA

GAMES and Economic Behavior



EDITOR: **Ehud Kalai**
Northwestern University
Evanston, Illinois

Game-Theoretic Modeling in the Social, Biological, and Mathematical Sciences

Papers published are mathematically rigorous as well as accessible to readers in related fields. The purpose of **Games and Economic Behavior** is to facilitate cross-fertilization between the theory and application of game-theoretic reasoning.

Research Areas Include

- Game theory • Economics • Political science • Biology
- Computer science • Mathematics • Psychology

Volume 3 (1991), 4 issues
ISSN 0899-8256

In the U.S.A. and Canada: $110.00
All other countries: $133.00

Manuscripts may be submitted to:

Games and Economic Behavior
J. L. Kellogg School of Management
MEDS Department
Northwestern University
2001 Sheridan Road
Evanston, Illinois 60208

Sample copies and privileged personal rates are available upon request. For more information, please refer to S0067 and write or call:

ACADEMIC PRESS, INC.
Journal Promotion Department
1250 Sixth Avenue, San Diego, CA 92101
U.S.A. (619) 699-6742

All prices are in U.S. dollars and are subject to change without notice. S1071

New from
Academic Press Books

Rational Politics

Decisions, Games, and Strategy

Steven J. Brams

"Brams displays his usual inventiveness in applying game theoretic reasoning in surprisingly diverse contexts. One cannot read him without becoming bolder, more wide-ranging, and hence, more insightful in grasping the power of strategic analysis of human—and perhaps even divine—behavior."

—Russell Hardin, UNIVERSITY OF CHICAGO

The term "rational politics" may sound incongruous, but Steven Brams demonstrates that indeed politicians behave rationally in making choices to satisfy their goals. Brams defines rational politics as "the calculation of advantage and disadvantage by rational actors in situations of conflict, resulting in choices whose consequences affect significant numbers of people and the actions of governments." He then uses this definition and models based on game theory, decision theory, and social-choice theory to analyze a number of actual political situations. He combines general topics, such as election campaigns and legislative voting, with specific case studies, including the Watergate tapes case, the Cuban missile crisis, and recent presidential elections.

CONTENTS: The Study of Rational Politics. Political Intrigue in the Bible: Esther. Candidate Strategies. Voting Paradoxes and Problems of Representation. Voting Power. Threats and Deterrence. Traps: No-Win Situations. Coalitions. Strategy and Ethics. Glossary. Bibliography. Index.

In Paperback: $19.95/ISBN: 0-12-125455-0
August 1989, 248 pages

ACADEMIC PRESS

Harcourt Brace Jovanovich, Publishers

Book Marketing Department #21129, 1250 Sixth Avenue, San Diego, CA 92101

CALL TOLL FREE

1-800-321-5068

Quote this reference number for *free postage and handling* on your prepaid order ➥ **21129**

Prices subject to change without notice. ©1989 by Academic Press, Inc. All Rights Reserved. LK —21129.